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Response from Agder Energi on consultation on structural options to strengthen the EU Emissions Trading System

Agder Energi welcomes the opportunity to respond to the consultation on structural options to strengthen the EU Emissions Trading System (EU ETS).

Agder Energi is Norway's fourth-largest energy supplier measured by hydroelectric power generation with a mean annual production of 7.7 TWh. Installations, encompassing both river flows and storage capacity, exceed 1,700 MW of generation. Agder Energi's production facilities are situated in the very south of Norway, close to the European Continent and the UK.

General Comments

Agder Energi supports the EU ETS as the central pillar of European climate policy. We see the EU ETS as the most efficient measure to reduce GHG emissions in a cost effective way and the most efficient measure to support the transition from the use of fossil energy sources to renewable energy sources.

In our view the current situation with a large surplus of quotas and subsequent low quota prices will not provide adequate long-term incentives for investments and therefore postpone important investments in low-carbon technologies. This may make it difficult and will increase total costs to meet the cumulative emissions targets for 2050. Therefore it will be cost efficient for all countries participating in the EU ETS to implement structural changes in the EU ETS as soon as possible following a trajectory meeting GHG-reductions of 80-95% in 2050 compared to 1990, coherent with the EU 2050 vision.

To reach the target of 80-95% GHG reductions in 2050 the supply side of the EU ETS needs to be adjusted, both in the short and in the long term, and the structural reform should aim at such adjustments. Restoring the credibility of the EU ETS will also be important to uphold the EU ETS as a widely recognised liquid market with a functioning infrastructure which can continue to inspire an increasing number of countries to follow the European lead and put in place domestic carbon markets – and hopefully, gradually integrating the markets to establish a wider international carbon market, and ultimately a global carbon market.

The two other 20% targets for 2020 – on renewable energy and energy efficiency - have contributed to undermine the carbon market as a tool for investments and as a measure to reach the long-term climate targets. Policies for the period post 2020 and the discussions of targets for 2030 and 2050 should be based on the EU ETS as the key driver for GHG reductions. Long-term stronger targets for the EU ETS will contribute to give investors necessary signals to invest in low carbon technologies across sectors keeping the total power costs and abatement costs down compared to alternative policy solutions.

Preferred structural options

Agder Energi would like to underline that the preferred structural options should meet at least two important criteria:

- The structural options should be long-term solutions to realize the low-carbon economy in 2050.
- The structural options should give immediate signals to investors – also before 2020.

Of the six proposed structural options Agder Energi is of the opinion that highest priority should be given to option c) *Early revision of the annual linear reduction factor*, so that the 80-95% target in 2050 can be reached. The target for 2030 should be defined and the annual linear reduction factor adjusted to meet targets in both 2030 and 2050. The revision of the annual linear reduction factor should come into effect as soon as possible, preferably before 2020.

Agder Energi can also support option a) *Increasing the EU reduction target to 30% in 2020* and option b) *Retiring a number of allowances in phase 3*. Especially, if option c) cannot come into effect before 2020, Agder Energi is of the opinion that a long-term solution with option c) should be combined with a permanent withdrawal of allowances before 2020 to restore investment incentives in the short run. In that case the size of the withdrawal and the annual linear reduction factor combined should be designed to meet the 80-95% target in 2050. Agder Energi can also support option d) *Extension of the scope of the EU ETS to other sectors*, as the EU ETS (and hopefully in the end a global ETS) in principal should cover all sectors responsible for GHG emissions.

Conclusion

Agder Energi is of the opinion that the EU ETS should be developed to be the central pillar of European climate policy (and hopefully lay the ground for a global ETS) and be the key driver for investments in carbon reduction with a firm target for 2050 and an intermediate target for 2030. Agder Energi gives highest priority to option c) *Early revision of the annual linear reduction factor* in order to reach the long-term 2030 and 2050 targets on the way to a low-carbon economy in 2050.

Yours faithfully
Øyvind Stakkeland



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